

OTTER TAIL POWER COMPANY

Case No: PU-20-193

Response to: ND Public Service Commission

Analyst: Victor Schock

Date Received: June 01, 2020

Date Due: June 15, 2020

Date of Response: June 15, 2020

Responding Witness: Peter J. Beithon, Manager, Regulatory Recovery - (218) 739-8607

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Data Request:

What are the types and amounts of COVID-19 related expenses and reduced revenue items you are already experiencing? I realize full picture items are likely not yet available, but any preliminary views would be helpful.

Attachments: 0

Response:

As referenced in earlier responses, travel expenses for construction crews has increased due to the need to travel in separate vehicles to keep social distancing. Items like travel will need to be analyzed to know what is due to the pandemic and what changes are due to normal business practices to reduce costs. PPE costs have increased over what would normally be spent. We are estimating health insurance costs will be up some, but that could change dramatically depending on experience with COVID-19. We are estimating bad debt expense will be significantly higher than normal.

**This is not an exhaustive list of the costs that Otter Tail may encounter attributable to the COVID-19 pandemic and thus there may be other areas that we seek to include in the deferred accounting request. Other areas may include: operational impacts such as sequestration costs for critical employees, administrative or financing costs associated with arrearages, technology to continue business operations from remote locations, training for employees, legal or regulatory expenses to determine and communicate responses, and other potential costs that are not known at the time of this response.**

**Otter Tail is also experiencing loss of load resulting from businesses being idled either as a precaution or in response to infected employees, or as a result of economic pressures or complying with governmental mandates. Otter Tail will quantify the revenue impact as the long-term effects become more apparent. Otter Tail may seek recovery of this lost revenue through the deferred accounting process.**

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Data Request:

Are you requesting deferred accounting treatment for expense items only, or for reduced revenues also?

Attachments: 0

Response:

Yes, as stated on page six of the April, 24, 2020 Application, item 12: Otter Tail is requesting deferred accounting treatment for reduced revenues. “The individual Applicants may also experience reduced revenue due to a reduction in utility service usage as businesses are idled, various industries are impacted, and other macroeconomic conditions affect consumer activity. Therefore, individual Applicants may also track revenue impacts resulting from changes in demand or energy consumption. While these impacts cannot currently be predicted with precision, given the unprecedented nature of the COVID-19 public health emergency, they may be substantial.” Otter Tail does not know the overall impacts at this time and may find it is not necessary to make a final request for revenues once the pandemic eases. Otter Tail has taken steps to cut its expenses in an attempt to offset the reduction in revenues.

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Responding Witness: Tyler A. Akerman, Manager, Business Planning Regulatory Accounting -  
(218) 739-8298

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Data Request:

How do you intend to value the reduced revenue amount(s)? What accurate measurement can be used to determine an amount that does not exist?

Attachments: 0

Response:

Otter Tail Power (OTP) has been and will continue to monitor sales for all customer classes. Although there is not a method available which would allow OTP to report the reduced base revenues with exact precision, the company has been comparing 2020 actual sales to prior years as well as forecasted sales. For example, the company has been comparing the 2020 weather normalized sales to 2019 weather normalized sales to determine if there are customer classes with material differences. If material differences are found, the company investigates them in further to determine what rate group or rate code those has the difference.

In addition to utilizing prior years actual weather normalized sales as a reference point, OTP has been comparing actual sales to forecasted sales. The forecasted sales are, by nature, weather normalized and therefore provided another data point for comparison to determine if the 2020 actual sales are reflecting an impact which is caused by COVID-19.

Also, there are some customers which we can determine they have reduced loads resulting from COVID-19. For example, if our customer service employees know of a manufacturing customer who has closed a facility or reduced manufacturing because of COVID-19 for a period of time, we are able to look back at prior years to develop a baseline which can be compared to their 2020 usage to estimate what the reduced revenues are.

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Data Request:

What types of expense items do you anticipate needing to track? What specific items or categories?

Attachments: 0

Response:

Some examples for which OTP anticipates or has already incurred additional expenses include:

- Bad debts expense – While suspending disconnections on past due accounts during the pandemic is sensitive to customers' sudden financial situations, there have still been significant efforts to work with customers on payment plans and assist customers as much as possible. Establishing reasonable payment plans helps keep customers on track and also helps in reducing bad debt expense. With a higher unemployment rate since the pandemic began, bad debt expense is expected to increase over the next number of months based on an increase in the number of customers who are overdue on their accounts.
- Health Insurance - OTP has waived the fees related to using telehealth services for employees to enable health consultations without increasing exposure. This will reduce office visit co-pays for employees as well as overall health insurance costs for which OTP is responsible to cover over the employees' deductible amounts. It is still early in the pandemic to assess whether health costs will go up significantly (with an outside chance of costs going down). There is not experience with COVID-19 on which to base estimates of changes in costs.
- Personal Protective Equipment (PPE) - At this time, OTP does not have a good estimate for what the PPE costs may be for either the current year or for future years as well. We are a couple months into the pandemic which give us some history on what expenses may be, but it is too early to know what other costs may arise in the coming weeks and months. OTP is continually sourcing materials and supplies at competitive prices.

This is not an exhaustive list of the costs that OTP may encounter attributable to the COVID-19 pandemic and thus there may be other areas that we seek to include in the deferred accounting request. Other areas may include: operational impacts such as sequestration costs for critical employees, administrative or financing costs associated with arrearages, technology to continue business operations from remote locations, training for employees, legal or regulatory expenses to determine and communicate responses, and other potential costs that are not known at the time of this response.

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Data Request:

As of what date are you requesting to start tracking the incremental costs for deferred accounting treatment?

Attachments: 0

Response:

As Stated on page 6, item 13 of the April 24, 2020 Application: March 13, 2020, the date of the Governor's declared emergency.

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Data Request:

If you are requesting for reduced revenues, are there specific types/categories of reduced revenues, or are you requesting any/all reduced revenues?

Attachments: 0

Response:

As quoted in the response to ND-PSC-01.2, On page 6 of the April 24, 2020 Application, item 12 we stated:

“These and other actions of the Applicants to respond to the pandemic have financial impacts. The Applicants expect that the suspension of disconnections and the deterioration in the general economy may lead to a significant increase in arrearages and uncollectible expense in the future. The Applicants also anticipate increases in administrative and financing costs associated with arrearages and uncollectible expenses, an increased need for outside services, and additional purchases of tools, materials, and supplies, among other things. The individual Applicants may also experience reduced revenue due to a reduction in utility service usage as businesses are idled, various industries are impacted, and other macroeconomic conditions affect consumer activity. Therefore, individual Applicants may also track revenue impacts resulting from changes in demand or energy consumption. While these impacts cannot currently be predicted with precision, given the unprecedented nature of the COVID-19 public health emergency, they may be substantial.” Otter Tail is seeing drops in revenues in the general service and large commercial classes due to impacts of orders under the COVID-19 public health emergency offset somewhat by increases in revenues in the residential class. It has only been two months, so it will take time to know if the changes in revenues are long-term. Demands for goods and services has changed during the pandemic, affecting manufacturing and it will take time to know when those customers’ usage will rebound.

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Data Request:

Do you also intent to track items of reduced cost? I.E. there should be some reduction in expenses for meter readings, since manual meter readings were suspended.

Attachments: 0

Response:

Yes, we will track items of reduced costs due to the pandemic. The only meter reading Otter Tail has estimated is those meters inside houses. There are not savings from meter reading as the rest of the meters have been read.

Keep in mind Otter Tail has taken cost cutting measures in an attempt to offset reduced revenues. As an example, only necessary travel (as allowed under COVID-19) is allowed under Otter Tail's cost cutting measures. On the flip side, travel cost for construction crews has increased due to using separate vehicles to keep social distancing. We don't know if medical costs will go up or down, depending on future experience with employees contracting COVID-19.